

## Attachment 4



# Investor Briefing

July 25, 2001 | No. 226

## SBC's Second-Quarter Diluted Earnings Per Share Increases 8.9% With Focus on Disciplined Financial Management, Growth Drivers

*Diluted EPS, before one-time items, of \$0.61 vs. \$0.56 in the year-ago quarter*

SAN ANTONIO, July 25, 2001 — SBC Communications Inc. (NYSE: SBC) today reported solid second-quarter results despite the weak U.S. economy. The company's performance included continued strong execution of its major growth drivers — data, wireless and long distance — and effective expense management.

Diluted earnings per share, before one-time items, increased 8.9 percent to \$0.61, or \$2.1 billion, up from \$0.56, or \$1.9 billion, in the second

quarter a year ago. Revenues, together with proportionate revenues from Cingular Wireless, SBC's national wireless joint venture with BellSouth Corporation, grew 3.0 percent to \$13.6 billion. The modest revenue growth reflects the ongoing impact of a weak U.S. economy, increased competition and the sale of non-strategic assets including a security-monitoring business.

"The weak U.S. economy created many challenges in the quarter, but

we took appropriate steps to produce solid results while continuing to invest in our growth drivers," said Edward E. Whitacre Jr., chairman and CEO. "Going forward, we will remain focused on expanding our high-potential growth platforms, continually improving customer relationships and maintaining a disciplined approach to expense management."

### SECOND-QUARTER RESULTS

*(Dollars in millions, except per-share amounts. Results exclude one-time items. Second-quarter 2001 results include proportionate Cingular results. Second-quarter 2000 not restated.)*

*(Volumes in thousands)*

	2001	2000	Change
Total operating revenues	\$13,586	\$13,192	3.0%
EBITDA	\$ 5,675	\$ 5,432	4.5%
Earnings	\$ 2,073	\$ 1,924	7.7%
Diluted earnings per share	\$ 0.61	\$ 0.56	8.9%
Data revenues	\$ 2,219	\$ 1,735	27.9%
Cingular subscriber revenues <sup>1</sup>	\$ 3,338	\$ 2,917	14.4%
Cingular wireless subscribers <sup>2</sup>	21,218	18,143	16.9%
Proportionate international revenues <sup>3</sup>	\$ 1,848	\$ 1,665	11.0%

<sup>1</sup>Represents total pro forma Cingular revenues in both periods.

<sup>2</sup>Represents total Cingular pro forma subscribers in both periods.

<sup>3</sup>Results have been adjusted to reflect the sale of direct and indirect interests in international equity affiliates.

# Revenue *and* Expense trends

*SBC expands EBITDA margins, continues aggressive execution in major growth drivers.*

In the second quarter, SBC delivered disciplined, focused execution and a solid set of results. The following major factors shaped SBC's financial performance:

- Revenue growth was dampened by a weak economy and increased competition. Second-quarter operating volumes, including access lines and inward calls to service centers, extended trends from the first quarter of this year.
- Quarterly operating expenses continued to follow the trajectory the company outlined earlier in the year, running below fourth-quarter 2000 levels.
- At the same time, the company continues to invest and execute aggressively in its major growth platforms for the future — data, wireless and long distance.

SBC continues to have a cautious outlook for the remainder of 2001, particularly as it relates to the economy. The company expects third- and fourth-quarter results to be marked by continued modest revenue growth balanced with consistent expense management. SBC continues to expect earnings per share for the full year in the \$2.35-to-\$2.40 range, before one-time items.

## EBITDA MARGINS UP 250 BASIS POINTS TO 41.8 PERCENT

In the second quarter, SBC achieved significant progress in expense management, margins and cash flow:

- Cash operating expenses declined 0.9 percent from the first quarter this year, were down 7.9 percent from fourth-quarter 2000 levels and were up a modest 1.9 percent from the second quarter a year ago.
- Total operating expenses declined 0.2 percent from the first quarter this year, were down 6.3 from fourth-quarter 2000 levels and increased a modest 2.9 percent from year-ago levels.
- SBC's EBITDA margin, including results from Cingular, increased to 41.8 percent — up 250 basis points from first-quarter levels and up 60 basis points compared with the second quarter a year ago.
- SBC generated significant free cash flow after dividends and interest.

## SBC Major Revenue Growth Drivers

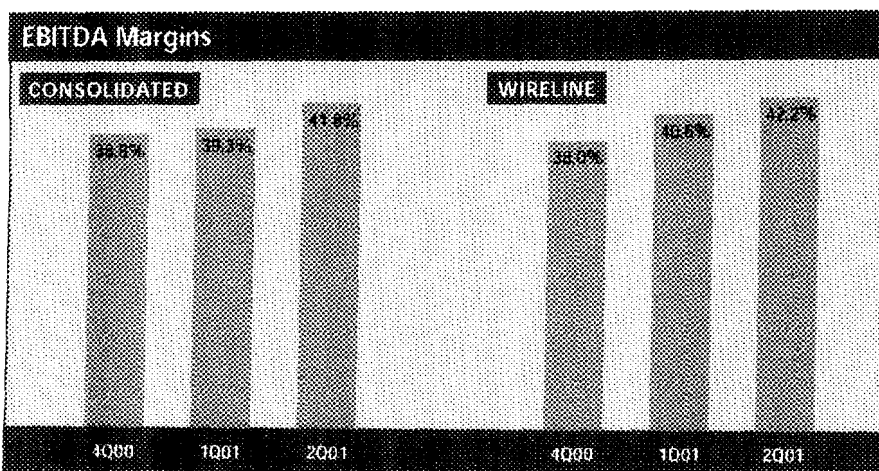
- Data
- Wireless
- Long Distance

## CONTINUED STRONG RESULTS FROM MAJOR GROWTH DRIVERS

SBC continues to expand margins and lower expenses while aggressively focusing resources on its major growth platforms for the future — data, wireless and long distance. Total revenues from these drivers now represent nearly 40 percent of SBC's total revenues.

Growth-driver highlights from the second quarter included:

- 27.9 percent growth in data revenues to \$2.2 billion, including 42.3 percent growth in advanced Internet-based and network integration services, as businesses continue to show a strong demand for high-speed, high-reliability solutions.
- A 701,000 net gain in wireless customers at Cingular, bringing its total to 21.2 million, up 16.9 percent from pro forma totals a year ago.
- 2.8 million long-distance lines in the company's recently entered markets — Texas, which launched a year ago, and Kansas and Oklahoma, where marketing began in March of this year.
- More than 1 million Digital Subscriber Lines (DSL) in service at the end of the quarter. Gross DSL sales and installations during the second quarter were in line with SBC's levels the past two quarters.



SBC's second-quarter revenue growth of 3 percent includes a number of special items that impact comparisons including: sales of nonstrategic businesses during the past year, most notably its security-monitoring operations; shifts in directory publications dates; the pro forma effect of the Cingular venture, which began operations at the beginning of the fourth quarter of 2000; and near-term outcomes from new telecommunications legislation in Illinois. Excluding these impacts, SBC's second-quarter revenues increased 4 percent.

In addition to a cautious outlook on core revenues for the second half of this year, SBC expects that additional dispositions of non-core businesses, such as the sale of Ameritech's cable television systems announced in May, will continue to adversely impact reported revenue comparisons.

#### **WIRELINE EBITDA MARGIN UP 160 BASIS POINTS TO 42.2 PERCENT**

In the second quarter, SBC's core wireline operations delivered 3.6 percent revenue growth. This growth rate reflects the impacts of a weak economy, growing competition and, to some extent, wireless substitution — balanced by effective expense management.

- SBC's cash operating expenses were 0.6 percent lower than the first quarter of this year, the company's second quarter in a row of sequential declines. Compared with the second quarter a year ago, cash operating expenses were up 5.1 percent. These expense comparisons reflect diligent management across operations, stable reciprocal compensation levels, a more measured approach to national expansion and process improvements in DSL — offset largely by increased spending at Ameritech compared with year-ago levels to support high levels of customer service.

- SBC's wireline operations also achieved a 42.2 percent EBITDA margin, up 160 basis points from the first quarter and up 420 basis points compared with the fourth quarter of 2000.

In terms of both revenue and expense growth, Ameritech operations continue to have a disproportionate impact on overall wireline results. Competition for basic services continues to be the most intense in the Ameritech states, and the company has increased spending in the region to support high levels of customer service.

Over the past several months, Ameritech has made substantial improvements in service quality measurements, and looking ahead, the company plans a number of aggressive marketing plans to drive customer wins in local service. For example, starting this month, Ameritech is now offering in Michigan a new bundle of local services that combines an access line, unlimited local calling, 300 local toll or zoned minutes each month and several of the most popular consumer vertical features, including Caller ID.

#### **WIRELINE VOLUMES**

Wireline volume indicators followed trends established in the first quarter this year.

They included:

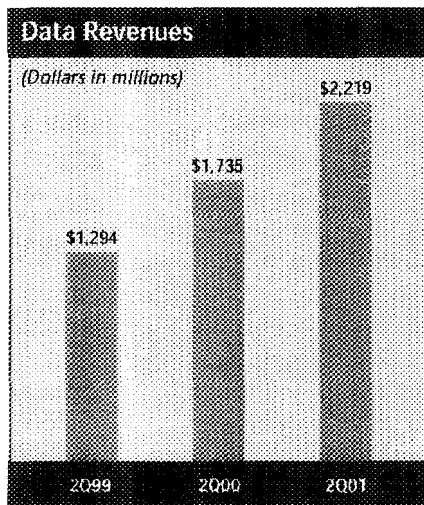
- 15.1 percent growth in VGEs (voice grade equivalents) to 109.6 million, reflecting continued strong growth in data connections. Business VGEs grew 21.9 percent compared with the second quarter a year ago.
- A more than 5 percent increase in revenues per retail access line, driven by long-distance revenues in Texas, Kansas and Oklahoma, DSL growth and continued strength in vertical services.
- 9 percent growth in vertical service revenues per consumer retail line. Sales of bundles that include attractive combinations of vertical services continued to be strong.
- A 3.4 percent decrease in network access revenues compared with the second quarter of 2000. Continuing trends from the first quarter of this year, network access revenues reflect the impacts of regulatory price reductions including the CALLS plan implemented in July 2000.
- A 1.1 percent decrease in traditional access lines compared with second-quarter 2000 levels, with most of the decline occurring among residential customers. Business access lines increased 3.6 percent from year-ago levels.

<b>SBC VGE Line Growth</b>			
<i>(in thousands)</i>	2001	2000	Change
Business VGEs	66,916	54,900	21.9%
Residence VGEs	42,123	39,683	6.1%
Other VGEs	590	703	-16.1%
Total VGEs	109,629	95,286	15.1%

# Data *growth*

*Total data revenues grew 27.9 percent in second quarter to \$2.2 billion; advanced services revenues, including network integration and e-services — up 42.3 percent.*

In the second quarter, SBC's wireline data revenues grew 27.9 percent to \$2.2 billion, as the company continues to expand its capabilities in high-speed, high-reliability solutions. Data revenues represented 21.5 percent of SBC's total second-quarter wireline revenues, up from 17.4 percent a year ago and 13.7 percent just two years ago.



In comparison with recent quarters, second-quarter data revenue growth rate was tempered by weaker overall economic conditions and balanced year-over-year comparisons. Starting this quarter, revenues from Sterling Commerce — SBC's worldwide provider of e-business solutions acquired in the first quarter of 2000 — are included in both the current and year-ago quarter.

SBC continues to see strong demand for data services particularly as enterprise customers migrate to higher speeds and more advanced solution sets.

- Core data products, including DS3s, SONET and ATM sustained high growth rates during the quarter. DS3 revenues increased more than 40 percent compared with the second quarter of 2000.
- Revenues from SBC's network integration business, which works with enterprise customers to develop network analysis, planning and security solutions, grew more than 90 percent.
- E-services revenues, which include Internet-related operations and Sterling Commerce, grew more than 35 percent.

## DATA GROWTH INITIATIVES

SBC's data growth continues to be driven by customer demand for high-bandwidth solutions both in metro and long-distance networks as applications become richer, B2B traffic increases and enterprises work to bring more bandwidth to desktops.

To capture this demand, SBC continues to expand its data-services product line and to build broader capability sets. For example:

- Earlier this year, SBC launched GigaMAN, an Ethernet-based service that provides high-bandwidth LAN links within metropolitan areas in Pacific Bell and Southwestern Bell after earlier introduction at Ameritech. Sales have been strong — with major customers in the banking, health care and education markets.

- In the second quarter, SBC installed its first Multi-service Optical Network (MON) and expects to launch MON point-to-point services across all regions this year.
- To further expand its network integration services, in May SBC announced the availability of a range of premise-based Internet Protocol (IP) systems. The offerings bundle SBC's professional services capabilities and networking expertise with best-of-breed IP equipment, providing customers the infrastructure they need to benefit from new, enhanced applications and services, such as unified messaging and videoconferencing.
- SBC also continues to expand its web-hosting portfolio, building on the capabilities of its two Internet data centers — one in Southern California and the other in Dallas; both opened during the past year. SBC's shared-hosting customers have increased 30 percent since the beginning of this year.

SBC Data Revenues			
(Dollars in millions)			
	2Q01	2Q00	Change
Data transport	\$1,523	\$1,246	22.2%
Advanced services	\$ 696	\$ 489	42.3%
Total data revenues	\$2,219	\$1,735	27.9%

# DSL *growth*

*Pronto buildout puts SBC's DSL service within reach of more than 55 percent of company's wireline customer locations; installed base exceeds 1 million.*

**S**BC, the nation's leading provider of DSL services, continues to strengthen its broadband growth platform. In the second quarter, SBC:

- Increased its DSL in-service base to more than 1 million.
- Sustained high levels of performance in provisioning and further improved productivity. Due date intervals now average less than 10 business days, and more than 90 percent of orders are completed on or before their original due dates.
- Further broadened its reach through its Project Pronto network buildout. At the end of the second quarter, SBC's DSL service was available to 23 million customer locations, or more than 55 percent of the company's wireline customer locations, up from 14.7 million locations a year ago. More than 90 percent of targeted wire centers are DSL-capable. At the end of the quarter, SBC had installed nearly 4,000 neighborhood broadband gateways, nearly double its total of the beginning of the year. Neighborhood broadband gateways, or remote terminals, bring central office capabilities closer to

customers, reduce distance limitations for DSL and expand the number of customer locations reached by SBC's DSL service.

## CONTINUED STRONG DEMAND

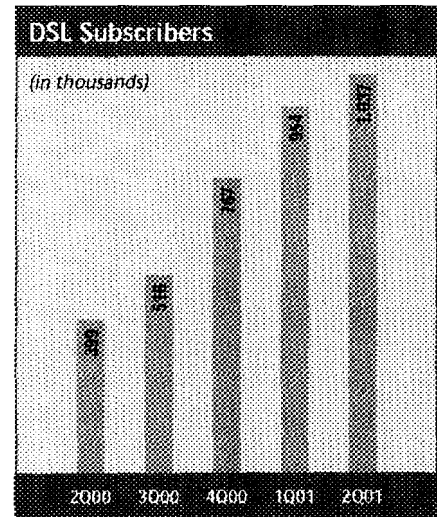
SBC views DSL as a strategic growth driver for the future — capable of delivering to residential and business end-users a host of entertainment, information and time-management services, as well as high-speed Internet access. In the second quarter:

- Total DSL sales and installations in the quarter were in line with that of the previous two quarters.
- Net adds of 83,000 during the quarter were reduced by independent ISPs that resold SBC's DSL service ceasing operations and by database reconciliations. Excluding the impact of ISP failures and the database reconciliations, net DSL additions for the quarter would have totaled approximately 170,000.

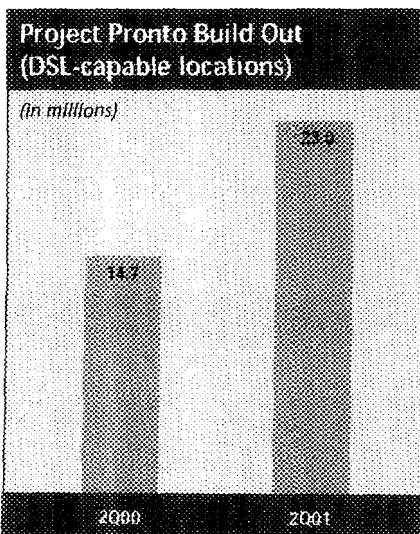
## IMPROVED OPERATING METRICS

Over the past three quarters, SBC has strengthened its DSL-provisioning capabilities and improved its financial metrics — critical foundations for sustained high levels of growth:

- More than 80 percent of SBC's new customers now use self-installation. SBC has enhanced customers' self-install experience this year with the introduction of new interactive software, which simplifies the process. Future enhancements to the software are expected to improve support-desk diagnostic and problem-solving capabilities.



- Improved order flow and other operational improvements have shortened provisioning cycle times to an average of eight days, a reduction of more than 60 percent since September.
- SBC continues to improve the economics of DSL. Acquisition costs have declined more than 25 percent since the fourth quarter of 2000 due to modem cost reductions and operational improvements.
- To add to its high-value service offerings, SBC has introduced home- and small-office networking gateways for DSL Internet customers in the Pacific Bell, Southwestern Bell and Southern New England regions. The gateways allow customers to share a single DSL Internet connection among multiple computers within the home or small office.



# Wireless *growth*

*Cingular's pro forma second-quarter service revenues grew 14.4 percent; EBITDA margin expanded to 37.5 percent.*

**C**ingular Wireless sustained solid growth in the second quarter as it expanded its customer base, drove strong revenue growth and achieved significant margin expansion.

As a joint venture of SBC and BellSouth, Cingular is the United States' second-largest wireless provider; SBC owns 60 percent of the joint venture.

In the second quarter, Cingular achieved:

- 16.9 percent growth in subscribers, compared with year-ago pro forma totals, to 21.2 million. Cingular had a net gain of 701,000 subscribers in the quarter and more than 3 million over the past year.
- 14.4 percent growth in service revenues, reflecting both higher subscriber levels and increased minutes of use. Total revenues, which include sales of equipment, grew 13.6 percent to \$3.6 billion.
- 37.5 percent EBITDA margin — up 140 basis points from pro forma results for the second quarter of 2000 and up 580 basis points from the first quarter this year. The quarter's margin improvement was driven by reduced branding expenses compared with the first quarter this year and by continued synergies from integration

of SBC's and BellSouth's formerly separate wireless operations. Major integration initiatives include consolidation of call centers into regional megacenters and centralizing distribution functions into a single high-capacity facility.

- Strong growth in data revenues reflecting the successful rollout of wireless Internet services, completed earlier this year, and continued growth at Cingular Interactive, which provides advanced two-way messaging, customized content services and transaction applications to customers throughout the United States.
- Continued increases in digital utilization of the network. More than 90 percent of Cingular's minutes of use are now digital.

## **BROAD DISTRIBUTION, STRONG BRAND**

Cingular continues to drive subscriber growth through robust distribution capabilities and rapid customer acceptance of its new national brand.

- Cingular now has more than 18,000 distribution points of presence across the United States. These include 1,200 stores and kiosks, 10,500 national retail outlets and 6,800 authorized agents.
- To further energize its brand strength, in June Cingular unveiled an innovative new store design that provides shoppers with a new level of accessibility to products, services and store personnel. Cingular and its authorized agents plan to redesign and incorporate elements of the new look into 90 percent of its 7,500 retail stores by year's end.

## **Cingular Focus**

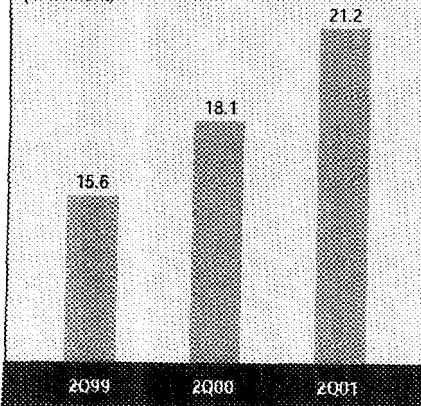
- 21.2 million subscribers
- 211 million POPs
- 43 of top 50 U.S. markets
- \$3.6 billion in revenues (2Q01)
- \$1.25 billion EBITDA (2Q01)
- SBC ownership - 60 percent

**x cingular**  
WIRELESS

- To expand its range of services, in June Cingular announced the national rollout of its wireless micropayment solution, Cingular DirectBill. Cingular is the first wireless carrier in the United States to offer a nationwide wireless micropayment billing service that bills purchases made by wireless phones or from the Internet to the customer's current wireless phone bill. The new service is part of Cingular's suite of mobile commerce services collectively known as Cingular's "Wireless Wallet."

## **Cingular: Total Domestic Wireless Subscribers**

(in millions)



**x cingular**  
WIRELESS

Cingular pro forma financial statements are available in the Investor Relations section of SBC's Web site.  
[www.sbc.com](http://www.sbc.com)

# Long-Distance *growth*

*SBC targets long-distance approvals in additional states this year, reaches more than 2.8 million lines in service in Texas, Kansas and Oklahoma.*

**S**BC views interLATA long distance as a key growth driver for the future — adding to its bundles of services for residential and small-business customers, driving growth in revenues per line and expanding its ability to deliver expanded solution sets for larger enterprises.

In the second quarter, SBC continued its solid progress in expanding its long-distance growth platform:

- The company passed the 2.8-million-line mark in the three states where it has launched long distance over the past year — Texas in July 2000 and Kansas and Oklahoma in March of this year. SBC serves approximately 13 million access lines in these three states. Sales from SBC's first few months of marketing long-distance services in Kansas and Oklahoma have been consistent with its results in Texas.
- The business segment continues to perform well, representing approximately 20 percent of total sales. Within the business segment, small-business customers account for about 70 percent of sales, and medium- large-business customers combined represent the other 30 percent.

- Long distance, as part of a bundle that includes combinations of vertical services, accounts for nearly one-fourth of total consumer sales. More than 35 percent of small businesses purchase Southwestern Bell long distance as part of a bundle.

## MARKETING, PRODUCT INITIATIVES

In the states where it has gained approval for market entry, SBC offers an array of long-distance products, including basic and bundled pricing; block-of-time options; and calling card and toll-free services as well as data services, such as private line, frame relay and ATM Cell Relay.

To further drive growth, SBC continues to add to its long-distance product sets, and has increased its focus on high-usage customers, including those who frequently call internationally. In May, Southwestern Bell Long Distance introduced in Kansas and Oklahoma "block-of-time" monthly plans that offer calls to Mexico for flat rates. The "SuperMexico" plans were launched in Texas in March. According to the Federal Communications Commission (FCC), Mexico is the second most frequently called international destination by U.S. consumers.

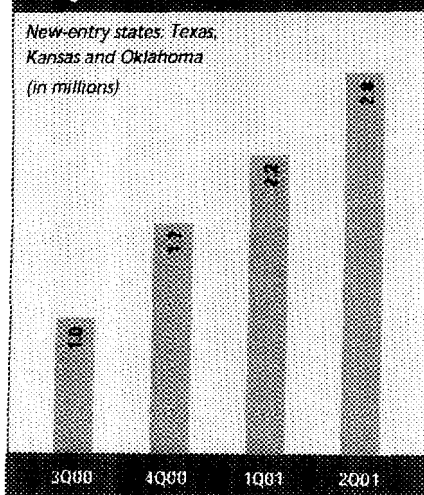
## ADDITIONAL STATES

SBC continues its work toward gaining approvals for entry into additional in-region states:

- On June 27, Pacific Bell filed with the California Public Utilities Commission the long-distance application it wants to send to the FCC later this year. Based on the state commission's current schedule, SBC expects approvals to enter the California interLATA market by late this year or at the start of 2002, with Nevada expected to follow shortly thereafter.
- On June 7, SBC notified the FCC that it will provide additional evidence supporting its Missouri long-distance bid and plans to refile the company's Missouri long-distance application as soon as possible. SBC expects approvals in both Missouri and Arkansas in the fourth quarter of this year.
- In early May, Ameritech-Michigan submitted a notice of intent to file with the Michigan Public Service Commission, the next step in the long-distance approval process in that state. Independent systems-testing is under way in each of the Ameritech states, and based on current progress, Michigan is expected to be the first of those states to file an application with the FCC.

## Long-Distance Lines in Service

New-entry states: Texas,  
Kansas and Oklahoma  
(in millions)





# International *growth*

*Continued strong revenue and customer gains expand platforms for growth and value creation.*

**S**BC's portfolio of international investments encompasses companies with operations in 28 countries beyond the United States. Major holdings include strategic investments in Telmex; América Móvil, Latin America's largest wireless communications provider; Bell Canada; TDC, formerly Tele Danmark; Belgacom, the national telecommunications provider in Belgium; Cegetel and SFR, nationwide landline and wireless providers in France; and Telkom South Africa.

In the second quarter, SBC's International holdings continued to generate strong gains in customers and revenues as the international companies expanded their growth platforms for the future. In the second quarter, SBC's directly held international investments achieved:

- 50.7 percent annual growth in total wireless subscribers to 37.7 million.
- 3.2 percent annual growth in total landline access lines to 38.3 million.
- 23.6 percent growth in total data revenues to \$1.2 billion.
- 13.0 percent growth in total revenues to \$10.9 billion.

## MAJOR GROWTH INITIATIVES

Across SBC's international holdings, companies in which SBC is a strategic investor continue to expand their growth potential, particularly in the major growth drivers of wireless and data services, including high-speed transport and solutions for businesses and mass-market broadband.

- Bell Canada, TDC and Belgacom all continue to make good progress in their DSL deployments aimed at bringing high-speed access to customers across their markets.
- Several companies in which SBC is a partner have made disciplined investments to obtain spectrum for 3G wireless data services. In the second quarter, SFR was awarded a 3G license in France. Later this year, TDC is expected to participate in auctions for 3G spectrum in Denmark. And earlier this year, Bell Canada acquired new licenses in Industry Canada's auction of PCS spectrum. The new licenses will allow Bell Mobility, together with its alliance partners, to deliver a full suite of current and future services to Canadians from coast to coast.

## STRONG NORTH AMERICAN ALLIANCES

SBC's international alliances with and investments in Telmex, América Móvil and Bell Canada form a powerful North American growth platform. Telmex is Mexico's premier telecommunications company. América Móvil, Latin America's largest wireless communications provider, owns Telcel in Mexico and telecommunications investments in Brazil and several other countries across the region. And Bell Canada is the largest communications provider in Canada.

In the second quarter, Telmex reported 10.4 percent growth in fixed lines, a 43.8 percent increase in Internet access accounts and a 76.5 percent increase in data line equivalents in the business market. In partnership with Telmex, this month SBC's Southwestern Bell Long Distance unit launched cross-border data services — private line and frame relay — between Texas and Mexico, providing customers a single contact and a single bill.

### SBC International Highlights

(Dollars in millions)

(Volumes in thousands)

	2001	2000	Change
Equity income	\$ 220	\$ 198	11.1%
Total access lines	38,301	37,128	3.2%
Total wireless customers	37,686	25,004	50.7%
Total revenues	\$10,946	\$ 9,690	13.0%
Proportionate access lines	6,656	6,681	-0.4%
Proportionate wireless customers	4,824	3,310	45.7%
Proportionate revenues	\$ 1,848	\$ 1,665	11.0%

Except equity income, results have been adjusted to reflect the sale of direct and indirect interests in international equity affiliated.

### Cautionary Language Concerning Forward-Looking Statements

Information set forth in this *Investor Briefing* contains financial estimates and other forward-looking statements that are subject to risks and uncertainties. A discussion of factors that may affect future results is contained in SBC's filings with the Securities and Exchange Commission. SBC disclaims any obligation to update or revise statements contained in this *Investor Briefing* based on new information or otherwise.

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## SBC Communications Inc.

## Consolidated Statements of Income (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	6/30/01	6/30/00	% Change
<b>Operating Revenues</b>						
Landline local service	\$ 5,927	\$ 5,462	8.5%	\$11,495	\$10,586	8.6%
Wireless subscriber	62	1,648	—	116	3,148	—
Network access	2,604	2,674	-2.6%	5,207	5,339	-2.5%
Long distance service	736	767	-4.0%	1,519	1,562	-2.8%
Directory advertising	947	967	-2.1%	1,777	1,849	-3.9%
Other	1,201	1,673	-28.2%	2,553	3,260	-21.7%
<b>Total Operating Revenues</b>	<b>11,477</b>	<b>13,191</b>	<b>-13.0%</b>	<b>22,667</b>	<b>25,744</b>	<b>-12.0%</b>
<b>Operating Expenses</b>						
Operations and support	6,226	7,876	-20.9%	12,309	15,090	-18.4%
EBITDA*	5,251	5,315	-1.2%	10,358	10,654	-2.8%
Depreciation and amortization	2,174	2,317	-6.2%	4,622	4,580	0.9%
<b>Total Operating Expenses</b>	<b>8,400</b>	<b>10,193</b>	<b>-17.6%</b>	<b>16,931</b>	<b>19,670</b>	<b>-13.9%</b>
<b>Operating Income</b>	<b>3,077</b>	<b>2,998</b>	<b>2.6%</b>	<b>5,736</b>	<b>6,074</b>	<b>-5.6%</b>
<b>Interest Expense</b>	<b>425</b>	<b>416</b>	<b>2.2%</b>	<b>884</b>	<b>772</b>	<b>14.5%</b>
<b>Interest Income</b>	<b>193</b>	<b>10</b>	<b>—</b>	<b>371</b>	<b>34</b>	<b>—</b>
<b>Equity in Net Income of Affiliates</b>	<b>541</b>	<b>189</b>	<b>—</b>	<b>942</b>	<b>389</b>	<b>—</b>
<b>Other Income (Expense) – Net</b>	<b>(164)</b>	<b>132</b>	<b>—</b>	<b>(58)</b>	<b>149</b>	<b>—</b>
<b>Income Before Income Taxes</b>	<b>3,222</b>	<b>2,913</b>	<b>10.6%</b>	<b>6,107</b>	<b>5,874</b>	<b>4.0%</b>
<b>Income Taxes</b>	<b>1,143</b>	<b>1,062</b>	<b>7.6%</b>	<b>2,164</b>	<b>2,201</b>	<b>-1.7%</b>
<b>Income Before Extraordinary Item</b>	<b>2,079</b>	<b>1,851</b>	<b>12.3%</b>	<b>3,943</b>	<b>3,673</b>	<b>7.4%</b>
<b>Extraordinary Item, net of tax</b>	<b>(8)</b>	<b>—</b>	<b>—</b>	<b>(18)</b>	<b>—</b>	<b>—</b>
<b>Net Income</b>	<b>\$ 2,071</b>	<b>\$ 1,851</b>	<b>11.9%</b>	<b>\$ 3,925</b>	<b>\$ 3,673</b>	<b>6.9%</b>
<b>Basic Earnings Per Share:</b>						
Income Before Extraordinary Item	\$ 0.62	\$ 0.54	14.8%	\$ 1.17	\$ 1.08	8.3%
Net Income	\$ 0.62	\$ 0.54	14.8%	\$ 1.16	\$ 1.08	7.4%
Weighted Average Common Shares Outstanding (000,000)	3,367	3,396	-0.9%	3,372	3,396	-0.7%
<b>Diluted Earnings Per Share:</b>						
Income Before Extraordinary Item	\$ 0.61	\$ 0.54	13.0%	\$ 1.16	\$ 1.07	8.4%
Net Income	\$ 0.61	\$ 0.54	13.0%	\$ 1.15	\$ 1.07	7.5%
Weighted Average Common Shares						
Outstanding with Dilution (000,000)	3,395	3,438	-1.3%	3,404	3,435	-0.9%

\*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

**SBC Communications Inc.****Consolidated Statements of Income - Normalized (Unaudited)**

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	6/30/01	6/30/00	% Change
<b>Operating Revenues</b>						
Landline local service	\$ 5,927	\$ 5,462	8.5%	\$11,495	\$10,586	8.6%
Wireless subscriber	1,850	1,648	12.3%	3,538	3,148	12.4%
Network access	2,592	2,674	-3.1%	5,184	5,339	-2.9%
Long distance service	736	767	-4.0%	1,519	1,562	-2.8%
Directory advertising	947	967	-2.1%	1,777	1,849	-3.9%
Other	1,534	1,674	-8.4%	3,217	3,261	-1.3%
<b>Total Operating Revenues</b>	<b>13,586</b>	<b>13,192</b>	<b>3.0%</b>	<b>26,730</b>	<b>25,745</b>	<b>3.8%</b>
<b>Operating Expenses</b>						
Operations and support	7,911	7,760	1.9%	15,891	15,022	5.8%
<b>EBITDA*</b>	<b>5,675</b>	<b>5,432</b>	<b>4.5%</b>	<b>10,839</b>	<b>10,723</b>	<b>1.1%</b>
Depreciation and amortization	2,459	2,317	6.1%	4,867	4,509	7.9%
<b>Total Operating Expenses</b>	<b>10,370</b>	<b>10,077</b>	<b>2.9%</b>	<b>20,758</b>	<b>19,531</b>	<b>6.3%</b>
<b>Operating Income</b>	<b>3,216</b>	<b>3,115</b>	<b>3.2%</b>	<b>5,972</b>	<b>6,214</b>	<b>-3.9%</b>
<b>Interest Expense</b>	<b>447</b>	<b>416</b>	<b>7.5%</b>	<b>930</b>	<b>772</b>	<b>20.5%</b>
<b>Interest Income</b>	<b>92</b>	<b>10</b>	<b>—</b>	<b>171</b>	<b>34</b>	<b>—</b>
<b>Equity in Net Income of Affiliates</b>	<b>227</b>	<b>189</b>	<b>20.1%</b>	<b>415</b>	<b>389</b>	<b>6.7%</b>
<b>Other Income (Expense) - Net</b>	<b>101</b>	<b>130</b>	<b>-22.3%</b>	<b>237</b>	<b>147</b>	<b>61.2%</b>
<b>Income Before Income Taxes</b>	<b>3,189</b>	<b>3,028</b>	<b>5.3%</b>	<b>5,865</b>	<b>6,012</b>	<b>-2.4%</b>
<b>Income Taxes</b>	<b>1,116</b>	<b>1,104</b>	<b>1.1%</b>	<b>2,053</b>	<b>2,178</b>	<b>-5.7%</b>
<b>Income Before Extraordinary Item</b>	<b>2,073</b>	<b>1,924</b>	<b>7.7%</b>	<b>3,812</b>	<b>3,834</b>	<b>-0.6%</b>
<b>Extraordinary Item, net of tax</b>	<b>(8)</b>	<b>—</b>	<b>—</b>	<b>(18)</b>	<b>—</b>	<b>—</b>
<b>Net Income</b>	<b>\$ 2,065</b>	<b>\$ 1,924</b>	<b>7.3%</b>	<b>\$ 3,794</b>	<b>\$ 3,834</b>	<b>-1.0%</b>
<b>Basic Earnings Per Share:</b>						
Income Before Extraordinary Item	\$ 0.62	\$ 0.57	8.8%	\$ 1.13	\$ 1.13	—
Net Income	\$ 0.61	\$ 0.57	7.0%	\$ 1.13	\$ 1.13	—
Weighted Average Common Shares Outstanding (000,000)	3,367	3,396	-0.9%	3,372	3,396	-0.7%
<b>Diluted Earnings Per Share:</b>						
Income Before Extraordinary Item	\$ 0.61	\$ 0.56	8.9%	\$ 1.12	\$ 1.12	—
Net Income	\$ 0.61	\$ 0.56	8.9%	\$ 1.12	\$ 1.12	—
Weighted Average Common Shares Outstanding with Dilution (000,000)	3,395	3,438	-1.3%	3,404	3,435	-0.9%

\* EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

The 2001 results reflect 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. The 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

Normalized 2001 net income excluded the following special items:

Pension settlement gains of (\$189) in the second quarter and (\$519) for the first six months related to management employees, primarily resulting from a fourth quarter 2000 voluntary retirement program net of costs associated with that program.

Combined charges of \$261 in the second quarter and for the first six months related to valuation adjustments of Williams Communications Group and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Adjustment of (\$78) in the second quarter and for the first six months to the estimate of an allowance for a note receivable related to the sale of Ameritech's SecurityLink business.

Combined charges of \$205 for the first six months related to impairment of our cable operations.

Normalized 2000 net income excluded the following special items:

Pension settlement gains of (\$80) in the second quarter and (\$241) for the first six months primarily related to employees who terminated employment during 1999.

Costs of \$153 in the second quarter and \$270 for the first six months associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.

A charge of \$132 for the first six months related to in-process research and development from the March 2000 acquisition of Sterling Commerce.

## SBC Communications Inc.

## Consolidated Statements of Segment Income - Normalized (Unaudited)

(Dollars in Millions)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	6/30/01	6/30/00	% Change
<b>Wireline</b>						
<b>Operating Revenues</b>						
Local service	\$ 5,923	\$ 5,467	8.3%	\$11,487	\$10,595	8.4%
Network access	2,604	2,696	-3.4%	5,207	5,384	-3.3%
Long distance service	709	715	-0.8%	1,447	1,469	-1.5%
Other	1,097	1,094	0.3%	2,304	2,153	7.0%
<b>Total Operating Revenues</b>	<b>10,333</b>	<b>9,972</b>	<b>3.6%</b>	<b>20,445</b>	<b>19,601</b>	<b>4.3%</b>
<b>Operating Expenses</b>						
Operations and support	5,972	5,682	5.1%	11,980	11,116	7.8%
<b>EBITDA*</b>	<b>4,361</b>	<b>4,290</b>	<b>1.7%</b>	<b>8,465</b>	<b>8,485</b>	<b>-0.2%</b>
Depreciation and amortization	2,094	1,931	8.4%	4,133	3,747	10.3%
<b>Total Operating Expenses</b>	<b>8,066</b>	<b>7,613</b>	<b>6.0%</b>	<b>16,113</b>	<b>14,863</b>	<b>8.4%</b>
<b>Operating Income</b>	<b>2,267</b>	<b>2,359</b>	<b>-3.9%</b>	<b>4,332</b>	<b>4,738</b>	<b>-8.6%</b>
<b>Interest Expense</b>	<b>311</b>	<b>322</b>	<b>-3.4%</b>	<b>656</b>	<b>646</b>	<b>1.5%</b>
<b>Other Income (Expense) - Net</b>	<b>7</b>	<b>24</b>	<b>-70.8%</b>	<b>21</b>	<b>46</b>	<b>-54.3%</b>
<b>Income Before Income Taxes</b>	<b>\$ 1,963</b>	<b>\$ 2,061</b>	<b>-4.8%</b>	<b>\$ 3,697</b>	<b>\$ 4,138</b>	<b>-10.7%</b>
<b>Wireless**</b>						
<b>Operating Revenues</b>						
Subscriber Revenues	\$ 1,850	\$ 1,648	12.3%	\$ 3,538	\$ 3,148	12.4%
Other	342	389	-12.1%	685	715	-4.2%
<b>Total Operating Revenues</b>	<b>2,192</b>	<b>2,037</b>	<b>7.6%</b>	<b>4,223</b>	<b>3,863</b>	<b>9.3%</b>
<b>Operating Expenses</b>						
Operations and support	1,439	1,348	6.8%	2,894	2,521	14.8%
<b>EBITDA*</b>	<b>753</b>	<b>689</b>	<b>9.3%</b>	<b>1,329</b>	<b>1,342</b>	<b>-1.0%</b>
Depreciation and amortization	312	287	8.7%	599	566	5.8%
<b>Total Operating Expenses</b>	<b>1,751</b>	<b>1,635</b>	<b>7.1%</b>	<b>3,493</b>	<b>3,087</b>	<b>13.2%</b>
<b>Operating Income</b>	<b>441</b>	<b>402</b>	<b>9.7%</b>	<b>730</b>	<b>776</b>	<b>-5.9%</b>
<b>Interest Expense</b>	<b>142</b>	<b>85</b>	<b>67.1%</b>	<b>284</b>	<b>124</b>	<b>—</b>
<b>Equity in Net Income of Affiliates</b>	<b>4</b>	<b>(1)</b>	<b>—</b>	<b>11</b>	<b>—</b>	<b>—</b>
<b>Other Income (Expense) - Net</b>	<b>(14)</b>	<b>(46)</b>	<b>69.6%</b>	<b>21</b>	<b>(81)</b>	<b>—</b>
<b>Income Before Income Taxes</b>	<b>\$ 289</b>	<b>\$ 270</b>	<b>7.0%</b>	<b>\$ 478</b>	<b>\$ 571</b>	<b>-16.3%</b>
<b>Directory</b>						
<b>Operating Revenues</b>	<b>\$ 937</b>	<b>\$ 917</b>	<b>2.2%</b>	<b>\$ 1,761</b>	<b>\$ 1,788</b>	<b>-1.5%</b>
<b>Operating Expenses</b>						
Operations and support	393	440	-10.7%	833	922	-9.7%
<b>EBITDA*</b>	<b>544</b>	<b>477</b>	<b>14.0%</b>	<b>928</b>	<b>866</b>	<b>7.2%</b>
Depreciation and amortization	9	7	28.6%	18	15	20.0%
<b>Total Operating Expenses</b>	<b>402</b>	<b>447</b>	<b>-10.1%</b>	<b>851</b>	<b>937</b>	<b>-9.2%</b>
<b>Operating Income</b>	<b>535</b>	<b>470</b>	<b>13.8%</b>	<b>910</b>	<b>851</b>	<b>6.9%</b>
<b>Interest Expense</b>	<b>2</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>5</b>	<b>-60.0%</b>
<b>Other Income (Expense) - Net</b>	<b>4</b>	<b>4</b>	<b>—</b>	<b>9</b>	<b>9</b>	<b>—</b>
<b>Income Before Income Taxes</b>	<b>\$ 537</b>	<b>\$ 472</b>	<b>13.8%</b>	<b>\$ 917</b>	<b>\$ 855</b>	<b>7.3%</b>
<b>International</b>						
<b>Operating Revenues</b>	<b>\$ 55</b>	<b>\$ 107</b>	<b>-48.6%</b>	<b>\$ 125</b>	<b>\$ 168</b>	<b>-25.6%</b>
<b>Operating Expenses</b>	<b>67</b>	<b>118</b>	<b>-43.2%</b>	<b>142</b>	<b>207</b>	<b>-31.4%</b>
<b>Operating Income (Loss)</b>	<b>(12)</b>	<b>(11)</b>	<b>-9.1%</b>	<b>(17)</b>	<b>(39)</b>	<b>56.4%</b>
<b>Interest Expense</b>	<b>9</b>	<b>67</b>	<b>-86.6%</b>	<b>10</b>	<b>137</b>	<b>-92.7%</b>
<b>Equity in Net Income of Affiliates</b>	<b>220</b>	<b>198</b>	<b>11.1%</b>	<b>397</b>	<b>397</b>	<b>—</b>
<b>Other Income (Expense) - Net</b>	<b>120</b>	<b>74</b>	<b>62.2%</b>	<b>227</b>	<b>212</b>	<b>7.1%</b>
<b>Income Before Income Taxes</b>	<b>\$ 319</b>	<b>\$ 194</b>	<b>64.4%</b>	<b>\$ 597</b>	<b>\$ 433</b>	<b>37.9%</b>

\*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

\*\*The 2001 results reflect 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. The 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

**SBC Communications Inc.****Consolidated Balance Sheets (Unaudited)**

(Dollars in Millions, Except per Share Amounts)

	6/30/01	12/31/00
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 649	\$ 643
Accounts receivable – net of allowances for uncollectibles of \$1,170 and \$1,032	9,208	10,144
Prepaid expenses	1,070	550
Deferred income taxes	574	671
Other current assets	1,073	1,640
Total current assets	12,574	13,648
Property, Plant and Equipment – at cost	123,885	119,753
Less: Accumulated depreciation and amortization	75,326	72,558
<b>Property, Plant and Equipment – Net</b>	<b>48,559</b>	<b>47,195</b>
<b>Intangible Assets – Net of Accumulated Amortization of \$658 and \$746</b>	<b>4,957</b>	<b>5,475</b>
<b>Investments in Equity Affiliates</b>	<b>11,757</b>	<b>12,378</b>
<b>Notes Receivable from Cingular Wireless</b>	<b>5,942</b>	<b>9,568</b>
<b>Other Assets</b>	<b>12,145</b>	<b>10,387</b>
<b>Total Assets</b>	<b>\$ 95,934</b>	<b>\$ 98,651</b>
<b>Liabilities and Shareowners' Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$ 8,021	\$ 10,470
Accounts payable and accrued liabilities	10,808	15,432
Accrued taxes	3,469	3,592
Dividends payable	861	863
Total current liabilities	23,159	30,357
<b>Long-Term Debt</b>	<b>19,024</b>	<b>15,492</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	7,410	6,806
Postemployment benefit obligation	9,967	9,767
Unamortized investment tax credits	287	318
Other noncurrent liabilities	4,832	4,448
Total deferred credits and other noncurrent liabilities	22,496	21,339
<b>Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts</b>	<b>—</b>	<b>1,000</b>
<b>Shareowners' Equity</b>		
Common shares issued (\$1 par value)	3,433	3,433
Capital in excess of par value	12,092	12,125
Retained earnings	20,544	18,341
Guaranteed obligations of employee stock ownership plans	(21)	(21)
Deferred Compensation – LESOP	—	(37)
Treasury shares (at cost)	(3,256)	(2,071)
Accumulated other comprehensive income	(1,537)	(1,307)
Total shareowners' equity	31,255	30,463
<b>Total Liabilities and Shareowners' Equity</b>	<b>\$ 95,934</b>	<b>\$ 98,651</b>

**SBC Communications Inc.****Consolidated Statement of Cash Flows (Unaudited)**

(Dollars in Millions, Increase (Decrease) in Cash and Cash Equivalents)

	Six months ended	
	6/30/01	6/30/00
<b>Operating Activities</b>		
Net income	\$ 3,925	\$ 3,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,622	4,580
Undistributed earnings from investments in equity affiliates	(224)	(142)
Provision for uncollectible accounts	575	415
Amortization of investment tax credits	(31)	(35)
Deferred income tax expense	648	558
Gain on sale of investments	(224)	(216)
Extraordinary item, net of tax	18	—
Changes in operating assets and liabilities:		
Accounts receivable	336	(575)
Other current assets	(431)	(371)
Accounts payable and accrued liabilities	(2,003)	(99)
Other – net	(634)	(1,052)
Total adjustments	2,652	3,063
<b>Net Cash Provided by Operating Activities</b>	<b>6,577</b>	<b>6,736</b>
<b>Investing Activities</b>		
Construction and capital expenditures	(5,744)	(5,341)
Investments in affiliates	1,512	(103)
Proceeds from short-term investments	510	—
Dispositions	339	216
Acquisitions	—	(3,663)
<b>Net Cash Used in Investing Activities</b>	<b>(3,383)</b>	<b>(8,891)</b>
<b>Financing Activities</b>		
Net change in short-term borrowings with original maturities of three months or less	(2,402)	4,604
Issuance of long-term debt	5,724	1,031
Repayment of long-term debt	(2,415)	(794)
Early extinguishment of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	(1,000)	—
Purchase of treasury shares	(1,465)	(892)
Issuance of treasury shares	132	172
Redemption of preferred shares of subsidiaries	(60)	—
Dividends paid	(1,727)	(1,698)
Other	25	50
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(3,188)</b>	<b>2,473</b>
<b>Net increase in cash and cash equivalents</b>	<b>6</b>	<b>318</b>
<b>Cash and cash equivalents beginning of year</b>	<b>643</b>	<b>495</b>
<b>Cash and Cash Equivalents End of Period</b>	<b>\$ 649</b>	<b>\$ 813</b>

## SBC Communications Inc.

## Supplementary Financial and Operating Data (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended			Six Months Ended		
	6/30/01	6/30/00	% Change	6/30/01	6/30/00	% Change
Capital Expenditures	\$ 2,937	\$2,992	-1.8%	\$ 5,744	\$5,341	7.5%
Dividends Declared Per Share	\$0.25625	\$0.25375	1.0%	\$0.51250	\$0.50750	1.0%
End of Period Common Shares Outstanding (000,000)				3,361	3,392	-0.9%
Pretax interest coverage <sup>1,4</sup>	9.7	8.3	17.0%	8.6	8.8	-2.0%
Net cash flow to average total debt <sup>2,4</sup>				24.0%	24.3%	-28 BP
Funds from operations interest coverage <sup>3,4</sup>				10.9	10.8	1.2%
Debt Ratio				46.4%	46.7%	-31 BP
Total Employees				216,600	219,000	-1.1%
Access Lines Served (000)				60,579	61,233	-1.1%
Residence				35,904	37,291	-3.7%
Business				24,085	23,239	3.6%
Other				590	703	-16.1%
Voice Grade Equivalents (000)				109,629	95,286	15.1%
Residence				42,123	39,683	6.1%
Business				66,916	54,900	21.9%
Other				590	703	-16.1%
Resold and Rebundled Lines (000)				3,200	2,056	55.6%
Access Minutes of Use (000,000)	72,738	70,659	2.9%	142,738	140,134	1.9%
Cingular Wireless (Pro Forma) <sup>5</sup>						
Wireless Voice Customers (000)				21,218	18,143	16.9%
Net Adds (000)	683	849	-19.6%	1,537	1,544	-0.5%
POPs (000,000)				192	192	—
SBC International <sup>6</sup>						
Total customers of SBC International's affiliates						
Access Lines (000)				38,301	37,128	3.2%
Wireless (000):						
Subscribers				37,686	25,004	50.7%
Net Adds				6,942	6,423	8.1%
Total Revenues				\$ 21,666	\$18,755	15.5%
SBC's proportionate interest of SBC International's affiliates						
Access Lines (000)				6,656	6,681	-0.4%
Wireless (000):						
Subscribers				4,824	3,310	45.7%
Net Adds				782	736	6.3%
Total Revenues				\$ 3,643	\$3,129	16.4%

<sup>1</sup>Normalized pretax income and interest, excluding the interest on payables to and 60 percent proportional consolidation of Cingular Wireless (Cingular) interest.

<sup>2</sup>Net cash flow equals funds from operations (cash flow from operations before working capital changes) less dividends paid.

<sup>3</sup>The sum of funds from operations and cash paid for interest on debt divided by interest incurred on debt.

<sup>4</sup>Prior year amounts restated to conform with current period reporting methodology.

<sup>5</sup>Amounts represent the 100% pro forma results of Cingular as if Cingular had existed for all periods presented. In the second quarter and for the first six months of 2001, there were approximately 18,000 and 30,000 customers removed from Cingular's customer base due to a partitioning agreement with certain minority partners. Excluding these customers, net adds would have been approximately 701,000 and 1,567,000 in the second quarter and for the first six months of 2001.

<sup>6</sup>Amounts for 2001 and 2000 include our investments accounted for under the equity method in 2001. Amounts for 2000 have been restated to exclude investments no longer accounted for under the equity method.



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#### **SBC Investor Briefing**

*SBC Investor Briefing* is published by the Investor Relations staff of SBC Communications Inc. Requests for further information may be directed to one of the Investor Relations managers by phone (210-351-3327) or fax (210-351-2071).

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Anne Wolfe



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SEP 10 2001

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of )  
Application of SBC Communications, Inc. )  
Pursuant to Section 271 of the )  
Telecommunications Act of 1996 ) CC Docket No. 01-194  
To Provide In-Region, InterLATA Services )  
in Arkansas and Missouri )

**JOINT DECLARATION OF  
WALTER W. WILLARD  
AND MARK VAN DE WATER  
ON BEHALF OF AT&T CORP.**

1. My name is Walter W. Willard. I am District Manager – Local Services for AT&T’s Southwestern/Pacific Region Local Services and Access Management Organization. In this position, I have responsibility for the business relationship with SBC Communications (“SBC”) to support AT&T’s plans for local service market entry and for negotiations with Pacific Bell (“Pacific”), Southwestern Bell (“SWBT”), and Southern New England Telephone (“SNET”) to facilitate such market entry. Among the matters I have personally focused on are Operations Support Systems (“OSS”), performance measurements, and billing and recording issues.

2. In that capacity, I am actively involved with various SWBT teams that are responsible for working with AT&T as a local service provider. Among the teams or organizations at SWBT with which I, and members of my organization, have frequent – sometimes daily – contact are:

- SWBT’s AT&T Account Team;
- Systems representatives;

- SWBT's Local Service Centers (Resale Local Service Center ("RLSC") and Facilities Local Service Center ("FLSC"));
- The Local Operations Center ("LOC"); and
- Project teams implementing various system, operational and engineering changes at SWBT.

Through SWBT's AT&T Account Team, I am also in frequent contact with policymakers at SWBT's parent corporation, SBC, regarding a multitude of local issues that bear on activities in our region. I have similar responsibilities in California with respect to Pacific Bell. In addition to these responsibilities, I have represented AT&T as a primary member of the California OSS Third Party Test – Test Advisory Board.

3. I am a graduate of the University of San Francisco, where I received a Bachelor of Science degree in Business Administration. I also received a Master of Science degree in Telecommunications from Golden Gate University in San Francisco. I have been employed by AT&T since 1981. In the course of my employment at AT&T, I have held various positions in the Engineering, Operations, OSS Research and Development, International, and Outsourcing areas. I have previously testified on behalf of AT&T in various regulatory proceedings, including the Section 271 proceedings conducted by State commissions in Missouri, Arkansas, Oklahoma, Kansas, and California. I also testified on behalf of AT&T in the proceedings before this Commission involving SWBT's first application for Section 271 authority for Missouri. *See Declaration of Walter W. Willard on Behalf of AT&T Corp.*, filed April 24, 2001, in CC Docket No. 01-88 ("Willard MO 271 Decl."); *Reply Declaration of Walter W. Willard on Behalf of AT&T Corp.*, filed May 16, 2001 in CC Docket No. 01-88 ("Willard MO 271 Reply Decl."). Both of these declarations are incorporated herein by reference.

4. My name is Mark Van de Water. I am employed with AT&T as District Manager—Performance Management for AT&T’s Local Services and Access Management Organization. In that position, I have responsibility for negotiating and implementing OSS requirements and interfaces and for resolving operational issues for AT&T Local Services. I received my Bachelor of Arts in Psychology, from Ottawa University in June 1997, and in April of 2001, I received my Master of Arts in Organizational Management from the University of Phoenix.

**I. PURPOSE AND SUMMARY OF DECLARATION**

5. The purpose of this Joint Declaration is to address whether, as SWBT claims in its application: (1) SWBT has corrected the problems with its Loop Maintenance Operations System (“LMOS”) that CLECs described in response to its first Section 271 application for Missouri and, therefore, is providing nondiscriminatory access to its maintenance and repair systems (“OSS”), in accordance with the Telecommunications Act of 1996 (“the 1996 Act”) and the Commission’s requirements; and (2) SWBT’s reported performance data demonstrate that SWBT is in compliance with the requirements of Section 271.<sup>1</sup> For the reasons stated below, SWBT’s claims are without merit.

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<sup>1</sup> See, e.g., Brief in Support of the Joint Application by Southwestern Bell For Provision of In-Region, InterLATA Services in Arkansas and Missouri, filed August 20, 2001 (“Application”), at 63-73, 159; Joint Affidavit of Daniel J. Coleman, William R. Dysart, and David R. Smith for Arkansas and Missouri (“LMOS Aff.”), ¶¶ 7-60; Affidavit of Beth Lawson for Missouri (“Lawson MO Aff.”), ¶¶ 3, 231-232; Affidavit of Beth Lawson for Arkansas (“Lawson AK Aff.”), ¶¶ 3, 231-232; Affidavit of William R. Dysart for Missouri (“Dysart MO Aff.”), ¶ 3. Affidavit of William R. Dysart for Arkansas (“Dysart AK Aff.”), ¶ 3. My declaration will also respond to the Affidavit of Michael Kelly for Arkansas and Missouri (“Kelly Aff.”).

6. First, as discussed in Part II, SWBT is still not providing nondiscriminatory access to its maintenance and repair systems. Although SWBT appears to have corrected some of the deficiencies in its systems that prevented CLECs from opening trouble reports on SWBT's electronic maintenance and repair interfaces, it has not eliminated all of them. Specifically, although SWBT has made improvements to its systems, those systems are not posting orders to LMOS in a timely manner. Because of the delays in posting, CLECs remain unable to open trouble tickets electronically within a reasonable time after the completion of the local service request ("LSR"). As a result, CLECs must open the reports through a manual process that carries inherent risks of errors and delay that are not present when SWBT provides the same maintenance and repair services for its own retail customers. These posting delays were neither reviewed nor analyzed in the Ernst & Young report on which SWBT relies.

7. Second, as discussed in Part III, the performance data upon which SWBT relies cannot be regarded as a reliable indicator of its performance, in view of SWBT's own admission that it has misstated data for key performance measurements. For example, SWBT's performance data have overstated the flow-through rates for CLECs, and may have understated the flow-through rates for SWBT's own retail operations, due to SWBT's failure to calculate such rates in accordance with the applicable business rules. Furthermore, as SWBT acknowledges, SWBT's previously-reported performance data for several performance measurements regarding maintenance and repair have not included all trouble reports that CLECs have submitted electronically, due to the above-described problems with the updating of LMOS. Even the limited analysis of its reported data that SWBT conducted to determine the

effect of these omissions shows that SWBT violated parity standards for certain measurements for which SWBT had previously reported nondiscriminatory performance.

**II. SWBT STILL DOES NOT PROVIDE NONDISCRIMINATORY ACCESS TO MAINTENANCE AND REPAIR FUNCTIONS.**

8. In my testimony regarding SWBT's first Section 271 application for Missouri, I showed that CLECs have been denied nondiscriminatory access to SWBT's maintenance and repair functions as a result of problems with LMOS, which is the legacy system that SWBT uses to manage and process trouble reports. *See Willard Missouri 271 Decl*, ¶¶ 8-25. The LMOS database inventories network facilities throughout SWBT's 5-State territory, and is used to perform line testing and various maintenance and repair functions.

9. SWBT's Toolbar Trouble Administration ("TBTA"), which is the interface that AT&T uses to submit trouble reports, relies on the LMOS database to determine the particular CLEC's end users. *LMOS Aff.*, ¶ 13. Thus, when a CLEC using TBTA requests maintenance information regarding a telephone number, it queries the LMOS database. SWBT, in turn, uses LMOS to determine which CLEC serves particular end-users for maintenance and repair purposes.

10. When SWBT's OSS process an LSR submitted by a CLEC, various legacy systems, including LMOS, are supposed to be updated, through the use of service orders generated internally by SWBT. According to SWBT, until March 2001 SWBT's systems were designed so that, only after the service order posted to SWBT's billing systems was the information in the service order passed on to LMOS in order to update the database to record the CLEC as the current "owner" of the circuit. *See LMOS Aff.*, ¶ 16. The update required the recording of the CLEC's identifying number, or "AECN," in LMOS.

11. The updating of LMOS to record the telephone number of the CLEC's customer, and the CLEC's AECN, is critical to the ability of a CLEC to submit trouble reports successfully on SWBT's electronic interfaces. If LMOS is not updated at the time the LSR was submitted to record the CLEC as the "owner" of the circuit, and the customer later reports a trouble, the CLEC will not be able to submit the trouble report electronically to SWBT, because the LMOS record will not show that the CLEC is the local service provider for that particular number. Instead, the CLEC will receive an error message, and SWBT's data will not capture the report as having been submitted by the CLEC.<sup>2</sup>

12. Despite the critical importance of a updating LMOS records, it became apparent in early 2001 that a substantial number of LMOS records were not being correctly updated – rendering CLECs such as AT&T unable to open trouble tickets electronically when those customers needed maintenance and repair service. AT&T first contacted SWBT about the problem in March 2001, after AT&T noticed that when it tried to submit trouble tickets on certain customer lines via TBTA, SWBT returned a message rejecting the trouble ticket on the ground that the telephone numbers were "ported or disconnected" – even though the numbers were active accounts of AT&T. Only in April 2001, after more than a month of persistent inquiries by AT&T, did SWBT finally acknowledge that the problems were due to deficiencies in LMOS and that the LMOS updating problem had existed "for some time." *See Willard MO 271 Aff.*, ¶¶ 14-17.

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<sup>2</sup> SWBT acknowledges that LMOS not only is used to process trouble reports for UNE-P orders, but also constitutes "One of the primary data sources relied upon to develop SWBT's maintenance performance measurement results for CLECs' UNE loop and port combinations." LMOS Aff., ¶¶ 8-9, Dysart AK Aff., ¶ 113; (continued . . .)



13. In late March 2001, SWBT advised AT&T that it had implemented software changes that would eliminate the LMOS updating problem, albeit only on a prospective basis. *Id.*, ¶ 20 & n.8. Then, in reply comments submitted in the Missouri 271 proceeding on May 16, 2001, SWBT asserted that as of May 11, 2001, it: (1) had implemented a “second part” of its system enhancement (implementation of WFA/DO Release 4.6) in addition to the software change implemented in March; and (2) had fully corrected all updating errors in the “embedded” LMOS database.<sup>3</sup> The evidence introduced by AT&T, however, demonstrated that SWBT had not, in fact, eliminated the LMOS updating problem, even on a prospective basis.<sup>4</sup> SWBT subsequently withdrew its Missouri 271 application.

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Dysart AK Aff., ¶ 121.

<sup>3</sup> See Joint Reply Affidavit of Daniel J. Coleman, William R. Dysart, Elizabeth A. Ham, Brian D. Noland, David R. Smith, and Thomas E. Weisz filed May 16, 2001, in CC Docket No. 01-88, ¶¶ 31-35 (“MO 271 LMOS Reply Affidavit”).

<sup>4</sup> See Willard MO 271 Reply Decl., ¶¶ 2-8; *ex parte* letter from Richard E. Young (counsel for AT&T) to Magalie Roman Salas in CC Docket No. 01-88, dated May 24, 2001, at 1-3. SWBT argues that the evidence that AT&T presented was not an effective means of determining whether the LMOS records had been accurately updated on the lines used in AT&T samples, because AT&T checked the AECN field on the end-user’s customer service record (“CSR”) via a pre-ordering inquiry to Verigate, and “information on the CSR – including the AECN – is pulled from the CRIS billing system.” LMOS Aff., ¶ 38 n.23. SWBT’s criticism is misplaced, because it rests upon the assumption that the information on the CSR in CRIS is not kept current after migration to the CLEC. In fact, during discussions on LMOS in July 2001, SWBT stated to AT&T that SWBT maintains a CSR for UNE-P customers even after migration, that this CSR includes the AECN of the CLEC currently serving the line, and that the CSR can therefore be used to determine the current “owner” of the account. In any event, AT&T used SWBT’s Toolbar – not the CSR – to determine whether LMOS records have been updated for the three samples discussed below in this declaration, and for the sample of 292 UNE-P conversations that AT&T discussed with SWBT in July. See LMOS Aff., ¶ 40 (describing discussion between AT&T and SWBT regarding the 292 conversions); ¶¶ 20-24, *infra*.